

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA IMMEDIATE

C O N F I D E N T I A L STATE 090921

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E.O. 11652:GDS

TAGS: ENRG, ID

SUBJECT: INDONESIA-CALTEX NEGOTIATIONS

FOR AMBASSADOR

REFS: A. JAKARTA 4931 B. JAKARTA 4855 AND PREVIOUS

1. GRANVILLE AND HAYNES CALLED ON DEPUTY SECRETARY ROBINSON EVENING APRIL 13. THEY REVIEWED HISTORY OF THE RECENT NEGOTIATIONS WITH GOI AND PERTAMINA, CONCLUDING WITH DESCRIPTION OF THEIR LATEST OFFER OF TWO ALTERNATIVE PROPOSALS (REF A). THEY EXPRESSED BELIEF THAT ON THE ONE HAND IT WAS NOT IN THEIR LONG-RUN INTEREST TO CAVE IN TO GOI PRESSURE (NOTING IN THIS CONFIDENTIAL

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NECTION THAT IN THEIR VIEW SADLI'S APRIL 1 LETTER HAD

BEEN CAREFULLY PHRASED TO AVOID DECREE TERMINOLOGY). ON OTHER HAND, IT WAS NOT WISE TO PRECIPITATE CONFRONTATION WITH GOI. AMONG OTHER THINGS, CONFRONTATION COULD COMPLICATE PARENT COMPANIES' OPERATIONS IN OTHER OPEC COUNTRIES.

2. WITH THIS IN MIND, THEY EXPLAINED, CALTEX' LATEST OFFER IS DESIGNED TO SHOW ITS GOOD FAITH EFFORTS TO SATISFY GOI'S VACILLATING CONCERNS. OFFER HOLDS OUT TO GOI CHOICE OF (A) A NEW PAYMENTS AGREEMENT WHICH WOULD

MEET THEIR EXPRESSED DESIRE TO GET AN ADDITIONAL 300 MILLION DOLS IN 1976 REVENUES AND (B) AN ALTERNATIVE PROPOSAL WHICH WOULD MEET IN LARGE MEASURE THEIR POLITICAL DESIRE FOR AN ADDITIONAL DOLLAR A BARREL. DECISION TO MAKE "PROVISIONAL ADDITIONAL PAYMENT" OF 46.3 MILLION DOLS (CALCULATED ON BASIS SECOND PROPOSED AGREEMENT) TO GOI RATHER THAN PLACING IT IN ESCROW WAS FURTHER EVIDENCE OF GOOD FAITH. IF FULL PAYMENT HAD BEEN MADE ACCORDING FORMULA IN SADLI'S APRIL 1 LETTER, TOTAL WOULD HAVE BEEN ABOUT 77 MILLION DOLS.

3. GRANVILLE AND HAYNES RECOGNIZE THAT THEIR ALTERNATIVE PROPOSAL OF A DOLLAR A BARREL "SHIFT" LIMITED TO EASTERN HEMISPHERE AND PERTAMINA IN-KIND LIFTINGS PLUS

SMALLER "SHIFT" FOR WESTERN HEMISPHERE DOES NOT MEET TERMS OF GOI'S "INTENTION" AS EXPRESSED IN SADLI'S APRIL 1 LETTER AND THAT THEREFORE THEY WERE RISKING A "DEGREE OF CONFRONTATION". THEY HOPED, HOWEVER, THAT GOI WOULD APPRECIATE COSMETICS OF THEIR ALTERNATIVE PROPOSAL, IN THAT GOI COULD SAY IT HAD FULLY ACHIEVED ITS OBJECTIVE OF DOLLAR A BARREL "ON ALL EXPORTS WITH FURTHER CONSIDERATION FOR FARAWAY DESTINATIONS".

4. GRANVILLE AND HAYNES DISCLOSED THAT ON BASIS PROJECTED 903,000 B/D CALTEX OUTPUT FOR 1976, DISPOSALS WOULD BE APPROXIMATELY AS FOLLOWS: DOMESTIC REFINING 158,000 B/D; PERTAMINA IN-KIND EXPORTS 142,000 B/D; CALTEX EXPORTS TO EASTERN HEMISPHERE 197,000 B/D; CALTEX LIFTINGS FOR WESTERN HEMISPHERE 406,000 B/D
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(235,000 TO WEST COAST AND 175,000 TO EAST COAST). THUS, CALTEX' LATEST ALTERNATIVE PROPOSAL SHOULD WORK OUT TO ABOUT A 62-CENT A BARREL "SHIFT" ON ALL BARRELS PRODUCED. THEY POINTED OUT THAT CALTEX' PRESENT PROFIT ON OIL FOR DOMESTIC REFINING WAS ONLY 8 CENTS A BARREL UNDER ITS CONTRACT, SO IF EXTRA DOLLAR A BARREL WERE APPLIED TO THIS PORTION, IT WOULD RESULT IN SUBSTANTIAL LOSS TO CALTEX.

5. NEITHER CHAIRMAN HAD ANY FIRM FEELING FOR WHAT GOI RESPONSE MIGHT BE. THEY RECOGNIZED THAT GOI MIGHT SIMPLY DECREE DOLLAR-PER-BARREL "SHIFT" ON ALL PRODUCTION AND COULD EVEN EMBARK UPON PROGRAM OF "CREEPING NATIONALIZATION". CALTEX WILL PROTEST IF GOI TAKES DECREE ROUTE, SINCE IT CANNOT ACQUIESCE IN A UNILATERAL ACTION. DESPITE SADLI'S COMMENTS ABOUT ARBITRATION BEING AN "UNFRIENDLY ACT", THE TWO COMPANIES ARE KEEPING IT OPEN AS AN OPTION.

6. IN RESPONSE TO ROBINSON'S QUERY, GRANVILLE AND HAYNES INDICATED THEY HAD NO SPECIFIC REQUEST OF USG AT THIS TIME. THEY WISHED TO KEEP USG INFORMED OF DEVELOPMENTS IN VIEW OF POSSIBILITY THAT IT MIGHT BE NECESSARY TO BECOME MORE INVOLVED LATER. AT LEGAL ADVISOR'S REQUEST, GRANVILLE AND HAYNES AGREED TO HAVE COUNSELS FOR THEIR COMPANIES PREPARE AN OPINION ON HOW VARIOUS POSSIBLE GOI ACTIONS IN RESPECT TO CALTEX WORK CONTRACT MIGHT OR MIGHT NOT VIOLATE TERMS OF THAT CONTRACT.

7. LEGAL ADVISOR HAS JUST (12 NOON) BEEN TOLD BY SOCAL GENERAL COUNSEL THAT SADLI HAS REJECTED CALTEX APRIL 14 LETTER "OUT OF HAND AND ON THE SPOT", AS INDICATED REF A. SADLI HAS APPARENTLY HINTED THAT GOI HAS LETTER DECREE DRAFTED AND READY FOR ISSUANCE TO REQUIRE DOLLAR-A-BARREL "SHIFT". RUMORS HAVE ALSO REACHED SOCAL THAT PERTAMINA HAS PERSONNEL PREPARED TO TAKE OVER KEY POSITIONS IN CALTEX.

8. WE SHARE YOUR CONCERN THAT ISSUANCE OF A UNILATERAL DECREE IMPOSING THE DOLLAR A BARREL "SHIFT" WOULD CONVERT PRESENT TAUT NEGOTIATIONS INTO AN IMPOSED SETTLEMENT,
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COULD RAISE LEGAL QUESTIONS, AND WOULD HAVE WIDER IMPLICATIONS FOR OUR BILATERAL RELATIONS AND FOR INTERNATIONAL ATTITUDES TOWARD INVESTMENT IN, AND LOANS TO, INDONESIA. POTENTIALLY MOST PERSUASIVE ARGUMENT TO GOI MAY BE THAT CALTEX OFFICIALS PREDICT THAT ECONOMIC EFFECTS OF ONE DOLLAR "SHIFT" IN TODAY'S INTERNATIONAL OIL MARKET WILL BE DECLINE IN LIFTINGS OF INDONESIAN OIL AND FAILURE OF GOI TO REALIZE ADDITIONAL REVENUE IT SEEKS. AMBASSADOR SHOULD MAKE CERTAIN THAT HIGHEST LEVELS GOI ARE FULLY AWARE OF THIS LATTER PREDICTED ECONOMIC CONSEQUENCE. IF AMBASSADOR DISCUSSES MATTER WITH GOI, HE SHOULD AT THIS TIME CONFINE HIS COMMENTS TO THIS LATTER POINT. KISSINGER

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